

Message Text

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OMB:ATHOMAS

INTERIOR:B.BURNS

EUR/CE:LHEICHLER

TREASURY:G.NENSEL

AEC:M.MCDONOUGH

EUR/RPE:D.LAMB

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FM SECSTATE WASHDC

TO AMEMBASSY BONN

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TAGS: TGEN, TECH, GW

SUBJECT: OFFSET - ARTICLE 4 - R&D AND URANIUM ENRICHMENT

1. A SERIES OF MEETINGS WERE HELD WITH SCHMIDT-KUESTER, FRG TECHMIN, ON 25 SEPT. AND WE BELIEVE CONSIDERABLE PROGRESS WAS MADE IN RESOLVING SOME OF THE SUBJECT ISSUES. AT THIS STAGE IT WAS AGREED THAT WE WOULD FIRST TRY TO IDENTIFY A SERIES OF PROJECTS TO WHICH THE USG AND FRG COULD AGREE IN PRINCIPLE WITH APPROX. ESTIMATES OF DM THE FRG WOULD COMMIT TO EACH UP TO A TOTAL OF DM 100 MILLION. ONCE THESE ARE CLEARLY IDENTIFIED THEN MEETINGS OF THE EXPERTS FOR EACH OF THESE PROJECTS WOULD BE HELD TO WORK

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OUT THE DETAILS E.G. MANAGEMENT, RIGHTS, PATENTS, TECHNICAL OBJECTIVES AND SCHEDULING OF RESEARCH ETC. DR. SCHMIDT-KUESTER AGREED TAHT EVEN IF THE TECHNICAL DETAILS HAD NOT BEEN RESOLVED, BUT A LIST OF PROJECTS HAD BEEN AGREED TO IN

PRINCIPLE, THAT THE FRG WOULD TRANSFER TO A NON-INTEREST BEARING U.S. TREASURY ACCOUNT THE AGREED AMOUNT OF OFFSET FUNDS. HE DESIRES THIS APPROACH BECAUSE HE STATED THAT DM 80 MILLION OF THE DM 100 MILLION WOULD COME FROM HIS BUDGET, NOT "NEW" MONEY FROM FINMIN, WHICH CONFIRMS EMBASSY REPORT (BONN 15184), AND HE WOULD LIKE TO TRANSFER ALL OR PART OF THIS BEFORE THE END OF THE FRG FY (DEC. 31, 1974). THIS IS AGREEABLE WITH US AND WE ARE PROCEEDING WITH EVALUATING THE PROJECTS DISCUSSED IN THE FOLLOWING MEETINGS.

2. THE FIRST MEETING WITH AEC (LEVINE, NININGER, MCDONOUGH), STATE (BLOOM, YOUNTS) AND FRG (S-K, KEMPFE AND WIENDIECK OF EMBASSY) WAS ON NUCLEAR PROJECTS OTHER THAN ENRICHMENT. SCHMIDT-KUESTER STATE FRG WANTED TO USE APPROX. DM 40-50 MILLION IN THIS SECTOR AS FOLLOWS:

A) URANIUM PROSPECTING, DM 20-30 MILLION. THE FRG EVIDENTLY HAS OBTAINED FROM THEIR INDUSTRY A LIST OF POSSIBLE VENTURES AND ARE ANALYSING WHICH ONE(S) ARE OF MOST INTEREST. WE ASKED FOR MORE INFORMATION AS DID EMBASSY (REF. BONN 14778 PARA 7C) IN ORDER TO MAKE A DETERMINATION IF ACCEPTABLE TO U.S.

B) NUCLEAR POWER PLANT SIMULATORS, DM 6.0 MILLION - FRG IS NEGOTIATING WITH SINGER-LEAR FOR TWO SIMULATORS. THIS EXPENDITURE IS ACCEPTABLE AS ADDITIONALITY. FUNDING WOULD BE DM 3 MILLION IN 1974 AND SAME AMOUNT IN 1975.

C) JOINT EXPERIMENTAL PROGRAM ON OPERATION OF PUMPS IN LOCA SITUATIONS BETWEEN KWU AND COMBUSTION ENGINEERING, DM 3.0M. FRG EVIDENTLY STILL INTERESTED IN PURSUING THIS PROJECT EVEN THOUGH AEC MAY NOT BE A PARTICIPANT (REF. STATE 138673). AS STATED IN REF., THIS PROJECT WOULD MEET OFFSET CRITERIA.

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D) THERE ARE THREE AEC PROJECTS THAT THE FRG IS INTERESTED IN PARTICIPATING THRU OFFSET FUNDS. THEY ARE (1) LOFT DM 4.0 M; (2) PBF FACILITY DM 3.0 M AND (3) PLENUM FILLING EXPERIMENT DM 3.0 M. AEC BELIEVES THIS WOULD BE FEASIBLE BUT FIRST THEY WISH TO REVIEW INTERNALLY TO PROVIDE THE FRG WITH A POSITION ON CERTAIN ASPECTS, E.G. LEVEL OF PARTICIPATION, RECOVERY COST, ETC. AND BE SURE THIS IS AGREEABLE WITH THE FRG.

REF. BONN 14778 PARA D. S-K STATED FRG NO LONGER INTERESTED IN JOINT PROJECTS ON MANAGEMENT OF RADIOACTIVE WASTES UNDER OFFSET.

3. URANIUM ENRICHMENT: IN WIDE-RANGING DISCUSSION ON WHOLE FIELD OF URANIUM ENRICHMENT, S-K AND JAMES CONNOR OF AEC DEVELOPED SOME POINTS OF AGREEMENT THAT APPEARED ENCOURAGING MOVES TOWARD MEETING THE OFFSET REQUIREMENT. CONNOR AGREED TO OPEN UP ISSUE AGAIN WITHIN AEC, WITH IDEA THAT AEC WOULD GUARANTEE FRG ENRICHMENT SERVICES UNDER OFFSET AT GOING MARKET PRICE IN EFFECT AT TIME TRANSACTION OCCURS (I.E., BEFORE JUNE 30, 1975). ALLOCATION OF SWU'S WOULD COME FROM (A) CONTRACTS ALREADY SIGNED BY U.S. UTILITIES BUT NOW IN EXCESS OF THEIR NEEDS

OR (B) FROM AEC PREPRODUCTION STOCKPILE. FRG WAS REQUESTED TO REFRAIN FROM DEALING WITH U.S. UTILITIES IN THIS REGARD UNTIL AEC CAN STUDY ALTERNATIVES FOR REVISING CONTRACTUAL ARRANGEMENTS BETWEEN AEC AND UTILITIES, SO THAT TRANSITION TO NEXT INCREMENT OF ENRICHMENT CAPACITY CAN BE FACILITATED. S-K MADE CONVINCING ARGUMENT THAT OFFSET AGREEMENT WAS SIGNED PRIOR TO AEC CUTOFF OF ENRICHMENT SERVICE CONTRACTING AND BEFORE SHORTAGE OF ENRICHMENT SERVICES DEVELOPED AND THEREFORE FRG SHOULD NOT HAVE TO PAY "SPECIAL PRICE" FOR SWU'S. CONNOR AGREED IN PRINCIPLE THAT IT WAS AEC RESPONSIBILITY TO FURNISH ENRICHMENT SERVICES TO FRG AND SAID THAT PROPOSAL WOULD BE SUBMITTED TO FRG WITHIN TWO MONTHS.

DR. CONNOR ALSO ENCOURAGED SCHMIDT-KUESTER TO EXAMINE POSSIBILITY OF FRG MAKING INVESTMENT IN UEA BY PURCHASE OF EQUITY SHARES. S-K APPEARED TO BE SERIOUSLY INTERESTED LIMITED OFFICIAL USE
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AND SAID FRG UTILITIES, UNDER GOVERNMENT LEADERSHIP, MIGHT BE WILLING TO COMMIT THEMSELVES TO CONTRACT FOR 10 PER CENT OF UEA PLANT OUTPUT, OR ABOUT 1,000 TONS SWU PER YEAR. CONNOR OFFERED TO MAKE ARRANGEMENTS FOR UEA REPRESENTATIVES TO MEET S-K IN DETROIT NEXT DAY AND AGAIN IN BONN AFTER HIS RETURN FROM U.S. AND BRAZIL, PROBABLY ABOUT OCT. 9. IT WAS AGREED THAT THIS DISCUSSION WOULD BE KEPT SEPARATE FROM OFFSET MATTERS FOR TIME BEING.

FYI: S-K - UEA MEETING DID OCCUR IN DETROIT AS PLANNED AND UEA REP REPORTS OPTIMISM CONCERNING FRG INVOLVEMENT. END FYI.

4. AT AN AFTERNOON MEETING WITH INTERIOR (GOUSE, BURNS ET AL), STATE (BLOOM, YOUNTS), OMB (APPLEMAN) AND AEC (BRESEE), S-K DISCUSSED FRG INTEREST IN COAL LIQUEFACTION RESEARCH. HE STATED THEIR INDUSTRY HAS BEEN TALKING TO U.S. INDUSTRY AND THEY ARE PARTICULARLY INTERESTED IN A GULF (PITTSBURG-MIDWAY) COAL LIQUEFACTION PROJECT.

PROBABLY CONTINUE WITH THESE NEGOTIATIONS. AS THIS IS A NEW PROJECT AND NEGOTIATIONS ARE BASED ON AVAILABILITY OF OFFSET FUNDS, IT WOULD QUALIFY AS ADDITIONALITY. GOUSE REVIEWED SEVERAL U.S. PROJECTS IN BEING OR PLANNED ALL OF WHICH ARE LISTED IN A NEW REPORT ON INTERIOR ENERGY R&D PROGRAM TO BE PUBLISHED IN APPROX. 6 WEEKS. S-K STATED MAYBE THE BEST APPROACH WOULD BE FOR THE FRG TO PLACE IN A U.S. ACCOUNT A CERTAIN AMOUNT OF FUNDS DEDICATED TO COAL RESEARCH PROJECTS TO BE USED AS THEY RESOLVE DETAILS WITH INTERIOR. THE FRG WILL TALK WITH THEIR EXPERTS WHO ARE FAMILIAR FROM EXCHANGE VISITS WITH INTERIOR PROJECTS AND TRY TO IDENTIFY

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SPECIFIC PROJECTS. AT THE SAME TIME S-K WILL PURSUE NEGOTIATIONS WITH GULF AND INTERIOR (GOUSE) WILL BE EXAMINING POSSIBLE JOINT PROJECTS. IN ANY EVENT S-K PLANS FOR THE BALANCE (DM 30-40 M) OF THE DM 80 M HE HAS AVAILABLE TO BE SPENT IN AREA OF COAL RESEARCH. IN DISCUSSIONS WE BROUGHT OUT THAT EXPEDITING A JOINTLY FUNDED COAL RESEARCH PROJECT COULD HAVE MUTUAL BENEFITS AND WOULD BE VERY TIMELY AS A SPECIFIC ACTION SUPPORTING LIMITED OFFICIAL USE
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RECENT ECG ACTIVITIES AND POSSIBLY COULD PRECIPITATE OTHER BILATERAL AND MULTILATERAL ACTIVITY. S-K AS THE FRG S&T REP TO ECG MEETINGS RECOGNIZES THESE BENEFITS AGREED TO EXPEDITE IDENTIFICATION OF A SUITABLE PROJECT AND BE BACK TO USG WITHIN TWO MONTHS.

5. S-K WAS UNABLE TO IDENTIFY WHICH PART OF TECHMIN WAS TO SUPPLY THE BALANCE (DM 20 M) OF THE DM 100 M OBLIGATION UNDER OFFSET. WE ASSUME THIS WOULD BE IN THE AREAS OF HEALTH AND SPACE (REF. BONN 14778) AND REQUEST EMBASSY TO CONFIRM.

6. IN SUMMARY AT PRESENT WE TABULATE DM 100 M OFFSET R&D EXPENDITURES BELOW, ASSUMING AGREEMENT IN PRINCIPLE ACHIEVED.

(A) UNDER S-K, DM 80 M AS FOLLOWS:

1. URANIUM PROSPECTING, DM 20-30 M. US RECEPTIVE, BUT AGREEMENT AWAITING RECEIPT FROM FRG OF MORE INFORMATION.
2. NUCLEAR POWER PLANT SIMULATORS, DM 6.0 M. AGREED IN PRINCIPLE.
3. KWU AND COMB. ENG. JOINT EXPERIMENT DM 3.0 M. AGREED IN PRINCIPLE.

4. PARTICIPATION IN THREE AEC PROJECTS (SEE PARA 2(B) ABOVE) DM 10.0 M. AWAITING FURTHER AEC REVIEW.

5. COAL RESEARCH. DM 30-40 M. FRG PARTICIPATION IN U.S. INDUSTRY PROJECT (GULF) AND JOINT PROJECTS WITH INTERIOR OR INTERIOR CONTRACTORS. RESOLUTION AWAITING FRG NEGOTIATION. WITH GULF AND SPECIFIC PROJECT IDENTIFICATION.

(B) DM 20 M AS FOLLOWS:

1. NEW PROPOSALS IN HEALTH FIELDS (REF. BONN 14778).
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2. DEVELOPMENT PHASE OF ARIES PROJECT. AGREED TO BY BOTH PARTIES. DM 0.575 MILLION (REF. STATE 165811 PARA. 1 PROJECT 3D).

3. SPACE PROJECTS TO BE IDENTIFIED. FRG STILL PRESSING FOR ACCEPTANCE OF AEROS B PROJECT AND SYMPHONIE LAUNCH (2ND ONE) WHICH ORIGINAL REJECTED BY U.S. AWAITING ADDITIONAL INFO FRG TO PROVIDE ON AEROS B (REF. BONN 14778 PARA 8A) BUT UNLESS PERSUASIVE, U.S. REJECTION STILL STANDS AS CITED IN STATE 165811 PARA 3C AND 3G. RE SECOND SYMPHONIE LAUNCH (PARA 8B BONN 14778) PREFER LET U.S. REJECTION STAND AND ONLY REASSESS IF FRG SHOULD RAISE QUESTION. NASA PREPARING A POSITION.

7. REQUEST EMBASSY REVIEW OUR SUMMARY WITH FRG TECHMIN AND REQUEST INFO REQUIRED BE SUPPLIED SOONEST. WE BELIEVE WE HAVE MOVED CLOSER TO RESOLUTION, BUT BOTH SIDES MUST EXPEDITE ACTIONS IN ORDER TO HAVE CLEAR COMMITMENT OF FUNDS TO PROJECTS AND SUBSEQUENT TRANSFER TO U.S. ACCOUNTS. KISSINGER

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